

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BAC2674 – TAXATION I

(All Sections/Groups)

12TH OCTOBER 2019

9.00 a.m – 12.00 p.m

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 12 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Tom and Jerry commenced their partnership business on 1st June 2014 and closed their partnership accounts to 31st December annually. The partnership agreement provided for the following:

Capital contribution:	
Tom	RM120,000
Jerry	RM120,000
Interest on capital	5% per annum for each partner
Salary:	
Tom	RM3,500 per month
Jerry	RM3,000 per month
Profit/loss sharing ratio:	
Tom	$\frac{1}{2}$
Jerry	$\frac{1}{2}$

On 31st May 2018, due to health problem, Jerry left the partnership and withdrew his accumulated capital and profits up to that date. On 1st June 2018, Mark joined the partnership and the new partnership agreement provided the following:

Capital contribution:	
Tom	RM120,000
Mark	RM150,000
Interest on capital	10% per annum for each partner
Salary:	
Tom	RM4,000 per month
Mark	RM4,000 per month
Profit/loss sharing ratio:	
Tom	$\frac{1}{3}$
Mark	$\frac{2}{3}$

The partnership's net profit before taxation for the year ended 31st December 2018 was RM520,000. The net profit was arrived at after deducting depreciation of RM12,000, cash donation to an approved institution of RM6,000, as well as salaries and interest on capital for each partners. The partnership made the cash donation on the 25th April 2018.

Continued

The partnership was also eligible to claim capital allowance of RM25,000 for the year of assessment 2018.

Required:

- i. Compute the partnership's provisional adjusted income and divisible income for the year of assessment 2018.
(8 marks)
- ii. Compute the total income of each partner for the year of assessment 2018. Round up your answers to the nearest Ringgit Malaysia (RM).
(9 marks)
- iii. Explain briefly the tax treatment for capital allowance under partnership business.
(3 marks)

(Total: 20 marks)

QUESTION 2

Part A

Alexander, Adam, and Adrian are three best friends who are going to launch their food delivery business in Sandakan. In addition to themselves, they plan to hire five part-time employees to act as delivery riders. They are also expecting to acquire seven 250cc motorcycles from a reputable motorcycle dealer.

During their interactions with the motorcycle dealer, Alexander, Adam, and Adrian are told that they can reduce their business' income tax payable by claiming capital allowances on the motorcycles. However, they are ill-informed on the ways to make the claim.

Required:

- i. Using your knowledge, explain briefly to Alexander, Adam, and Adrian on the qualifying criteria for a business to claim capital allowance.
(3 marks)
- ii. Explain the differences between initial allowance and annual allowance.
(4 marks)

Part B

Candary Sdn. Bhd. (Candary) is a garage owned by Mr. Oh. It offers vehicle towing and repair services. It makes up its account to 31st December each year.

Continued

Looking to increase its productivity, Candary acquired a heavy machinery used to repair damaged vehicle body in the year 2015 for RM420,000. Due to the size and complexity of the machinery, Candary had to pay another RM24,000 to install it in its workshop.

On 1st June 2016, Candary purchased a tow truck to add to its existing fleet. The truck's selling price was RM115,000 and Candary paid RM25,000 as down-payment. The balance was financed by hire purchase loan. According to the loan agreement, Candary was to pay off the loan in fifteen monthly instalments with the first instalment on 1st July 2016. However, due to its high maintenance costs, the truck was eventually sold off by Candary in May 2018 for RM65,000 in cash.

Required:

Calculate the capital allowances and balancing allowance or charge (if any) due to Candary Sdn. Bhd. for each of the non-current assets from the years of assessment 2015 to 2018.

(13 marks)

(Total: 20 marks)

QUESTION 3

Part A

Joshua, who is a consultant from Australia, worked for a Malaysian company since 15th December 2015, which is the date of his first arrival in Malaysia. He left Malaysia permanently on 10th January 2019, one month after his employment contract ended.

Joshua was in Malaysia for the following periods:

Year	Period of Stay
2015	15.12.2015 to 31.12.2015
2016	01.01.2016 to 10.05.2016 15.05.2016 to 03.10.2016 01.12.2016 to 30.12.2016
2017	01.06.2017 to 02.12.2017
2018	01.07.2018 to 31.12.2018
2019	01.01.2019 to 10.01.2019

Joshua went for vacation in the periods he was not in Malaysia, except for the followings:

- From 11th May 2016 to 14th May 2016, he was in his home country to visit his wife who was admitted into a hospital.

Continued

- From 1st January 2017 to 20th January 2017, he was in Japan to attend a business conference. Then, he was seconded to the company's branch in Cape Town, South Africa from 21st January 2017 to 31st May 2017.

Required:

- i. State, with reasons, the tax residence status for Joshua for all the relevant years of assessment by referring to applicable Section of the Income Tax Act 1967 (amended).
(12 marks)
- ii. Explain two advantages that Joshua would enjoy as a Malaysian tax resident.
(2 marks)

Part B

Norman, who is a Malaysian citizen, is employed by the Malaysian Tourism Promotion Board, which is under the Ministry of Tourism and Culture Malaysia. He had been seconded to Sydney, Australia for two years to serve at the Sydney office as a tourism officer.

In order to get settled, Norman arrived in Sydney two weeks earlier before he commenced his employment on 1st June 2017. In 2018, he only took leave to visit his family in Malaysia for periods totalling less than one month.

According to his secondment order, he was to be paid a monthly salary of an equivalent amount of RM8,000 as well as other employment benefits throughout his secondment period.

Required:

Explain the tax implications of the secondment on Norman's employment income for the years of assessment 2017 and 2018.

(6 marks)

(Total: 20 marks)

QUESTION 4

Madam Georgina Kirrin is a forty-year-old Malaysian tax resident. She has been married to Mr. Aloysius Campbell, who is unemployed, for the past twenty years. Together they have three children; Gabriella, aged nineteen years, and Julian and Julianna, who are fifteen-year-old twins. All their children are still studying. Gabriella is currently reading law in University Malaya while Julian and Juliana are both in Form Three.

Continued

Madam Georgina is a registered nurse and works in a private nursing home as a head nurse. The details of her employment income and related benefits in the year 2018 are listed as follows.

- i. A monthly gross salary of RM5,500.
- ii. EPF deduction of 11% from Madam Georgina's monthly salary. Meanwhile, the nursing home contributed at the rate of 13%.
- iii. Madam Georgina's monthly salary was deducted by RM15 for SOCSO contribution. The nursing home further contributed another RM52.
- iv. A clothing allowance of RM200 per month was provided throughout the year.
- v. Madam Georgina was given a smartphone by her employer for official purpose. The smartphone, which was purchased for RM1,400, was registered under the nursing home's name. Similarly, the phone bills were registered under and paid by the nursing home. In 2018, the phone bills totalled to RM2,600.
- vi. She was also provided with a new Proton Saga costing RM36,980 for the whole year. The fuel was paid for by the nursing home.

In addition to the above, Madam Georgina has received and incurred the following income and expenses in the year 2018.

- i. The rental income for her apartment in Sentul was RM2,500 per month. The apartment was rented throughout the year.
- ii. Her fixed deposit account yielded her an interest of RM870 for the year.
- iii. In December 2018, she received a dividend of RM650 from SL (Malaysia) Bhd. for the shares she held.
- iv. She spent RM2,500 for the education of Julian and Julianna. She did not spend any for Gabriella as her daughter receives scholarship that covers both tuition fees and living expenses.
- v. Madam Georgina had, throughout the year, subscribed to printed newspapers and magazines for her husband to occupy his time with. She paid a total of RM150 per month for the subscriptions.
- vi. Concerned with her general well-being, Madam Georgina underwent full medical check-up, for which she paid RM1,200. Gabriella, who accompanied her mother also undertook a similar check-up, of which the cost of RM500 was paid by Madam Georgina.

Continued

- vii. On her twins' birthday, Madam Georgina donated RM500 in cash to Sinar Harapan Orphanage Centre in Cheras. The orphanage centre is an approved charitable institution for income tax purpose. Later in the year, she also donated RM300 in cash to support her cousin who was going for a pilgrimage to Lourdes, France.

Required:

Calculate Madam Georgina's income tax payable for the year of assessment 2018. Show ALL relevant workings. Write down your answer to the nearest TWO (2) decimal points.

Note: You should indicate by the use of word "nil" for any item referred to in the question which no adjusting entry needs to be made or no reliefs or rebates to be given in the tax computation.

(Total: 20 marks)

QUESTION 5

Part A

Karim is the sole proprietor of Karim Bubble Shop, a laundry business in Muar. He commenced the business in July 2015. The following is the Statement of Profit and Loss of Karim Bubble Shop for 2018:

	Notes	RM	RM
Gross profit for the year			72,900
Add: Other income	i		3,080
			<u>75,980</u>
Less: Expenses			
Remunerations	ii	54,170	
Employees' Provident Fund (EPF)	iii	5,506	
Rent and insurance	iv	3,500	
Utilities	v	2,650	
Repair and maintenance	vi	6,980	
Legal and professional expenses	vii	3,120	
Bad and doubtful debts	viii	2,430	
Miscellaneous expenses	ix	4,550	
Printing and advertising		1,060	
Bank charges and interest		960	
Depreciation and amortisation		4,940	(89,866)
Net profit before taxation			<u>(13,886)</u>

Continued

Notes:

- i. Other income comprised of gains on sale of office equipment and interest income from investment amounting to RM580 and RM2,500 respectively.
- ii. Remunerations included RM24,000 for Karim, who works full-time for the business.
- iii. EPF contributed by the business is at the rate of 20% of its employees' total salaries and wages. The employees' total salaries and wages was RM27,530.
- iv. Rent and insurance expenses included Karim's private medical insurance premium of RM320.
- v. It has been agreed that one third of the utility costs relates to Karim's private use.
- vi. Repair and maintenance expenses were made up as follows:

	RM
Fuel	2,815
Loss on disposal of motor vehicle	1,890
Road tax and insurance	1,200
Fine for speeding by Karim	300
Essential repairs to second-hand truck	775
	<u>6,980</u>

- vii. Legal and professional expenses including the following:

	RM
Tax filing fees	800
Fees relating to renewal of lease	1,000
Accountancy fees	1,320
	<u>3,120</u>

- viii. Bad and doubtful debts included in the business expenses covered both general and specific provisions for bad and doubtful debts in respect of trade debtor. The amounts were RM1,020 and RM1,410 respectively.

Continued

- ix. Miscellaneous expenses included the following costs:

	RM
Leave passage for Karim to Sabah	1,200
Entertainment for supplier	300
Cash donations to approved charitable institutions	750

Other information:

- i. Karim is eligible to claim capital allowance and balancing allowance for his laundry business amounting to RM3,000 and RM2,600 respectively for the year of assessment 2018.
- ii. Karim's laundry business has a brought forward business loss from the year of assessment 2017 amounting to RM3,900.

Required:

Compute the total income for Karim for the year of assessment 2018. Round up your answers to the nearest Ringgit Malaysia (RM).

Note: Your computation should start with the 'net profit before taxation' figure and follow the descriptions used in the notes to the income statement. Indicate 'nil' in the appropriate column for any item that does not require adjustment. You do not need to explain the adjustments made.

(16 marks)

Part B

Badges of trade acid tests are used to distinguish whether a gain arises from disposal of assets is a capital gain or forms an adventure in the nature of trade. When the gain is capital in nature, it is not assessable to tax. However, if it arises from an adventure in the nature of trade, it is assessed as business income under Section 4(a) of the Income Tax Act 1967 (amended). Thus, an accurate determination is indeed important.

Required:

Explain any TWO (2) of the badges of trade acid tests.

(4 marks)

(Total: 20 marks)

Continued

APPENDIX**TAX RATES AND ALLOWANCES**

The following tax rates, allowances and values are to be used in answering the questions.

1. Income tax rates for resident individuals for the Year of Assessment (YA) 2018.

Chargeable Income (RM)	Calculations (RM)	Tax Rate %	Tax Payable (RM)
0 - 5,000	On the first 2,500	0	0
	Next 2,500	0	0
5,000 - 10,000	On the first 5,000		0
	Next 5,000	1	50
10,000 - 20,000	On the first 10,000		50
	Next 10,000	1	100
20,000 - 35,000	On the first 20,000		150
	Next 15,000	3	450
35,000 - 50,000	On the first 35,000		600
	Next 15,000	8	1,200
50,000 - 70,000	On the first 50,000		1,800
	Next 20,000	14	2,800
70,000 - 100,000	On the first 70,000		4,600
	Next 30,000	21	6,300
100,000 - 150,000	On the first 100,000		10,900
	Next 50,000	24	12,000
150,000 - 250,000	On the first 150,000		22,900
	Next 100,000	24	24,000
250,000 - 400,000	On the first 250,000		46,900
	Next 150,000	24.5	36,750
400,000 - 600,000	On the first 400,000		83,650
	Next 200,000	25	50,000
600,000 - 1,000,000	On the first 600,000		133,650
	Next 400,000	26	104,000
Exceeding 1,000,000	On the first 1,000,000		237,650
	Next ringgit	28

Continued

2. Reliefs for the Year of Assessment (YA) 2018.

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	3,500
Medical expenses for parents	5,000
Parental care	1,500 per parent
Medical expenses for serious diseases (including medical examination expenses up to RM500)	6,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old)	
- Each	2,000
- Disabled	6,000
Child relief (over 18 years old and studying in higher learning institutions)	
- Each	8,000
- Disabled	14,000
Amount deposited into SSPN for child	6,000
Contributions to approved funds and life insurance premium	6,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten	1,000

3. Rebates for the Year of Assessment (YA) 2018.

	RM
Chargeable income not exceeding RM35,000	
- Individual	400
- Additional relief when spouse relief is claimed	400

Continued

4. Values of benefits-in-kind.

a. Car and fuel benefits

Cost of car (when new) (RM)	Prescribed annual value of private usage of car (RM)	Fuel per annum (RM)
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of car benefit equal to half of the above prescribed annual value is taken if the car provided is more than five years old, but the value of the fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

b. Household furnishing, equipment, and appliances

Types of benefit	Annual value of benefit (RM)
a. Semi-furnished with furniture in the lounge, dining room, or bedrooms.	840
b. Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets.	1,680
c. Fully-furnished with furniture as in (a) and (b) above and one or more of the following: kitchen equipment, crockery, utensils, and appliances.	3,360

c. Provision of the following benefits by employer

Gardeners	RM3,600 per annum
Domestic servants	RM4,800 per annum
Guard	RM4,800 per annum

Continued

5. Capital allowances

Types of asset	Initial allowance rate (%)	Annual allowance rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings, others	20	10
Computers, information technology equipment and computer software	20	40
Industrial building	10	3

End of Paper.